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RR RUEHWEB

DE RUEHCV #2322 2162218  
ZNR UUUUU ZZH  
R 042218Z AUG 06  
FM AMEMBASSY CARACAS  
TO RUEHC/SECSTATE WASHDC 5748  
INFO RUEHBO/AMEMBASSY BOGOTA 6867  
RUEHBU/AMEMBASSY BUENOS AIRES 1387  
RUEHLP/AMEMBASSY LA PAZ AUG QUITO 2336  
RUEHSG/AMEMBASSY SANTIAGO 3692  
RUEHGL/AMCONSUL GUAYAQUIL 0579  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
RHEHNSC/NSC WASHDC  
RUEATRS/DEPT OF TREASURY  
RUCPDOG/DEPT OF COMMERCE

UNCLAS CARACAS 002322

SIPDIS

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TREASURY FOR KLINGENSMITH AND NGRANT  
COMMERCE FOR 4431/MAC/WH/MCAMERON  
NSC FOR DTOMLINSON  
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A

TAGS: [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: NEW CENTRAL BANK RESERVE REQUIREMENT FOR BANKS

REF: A. CARACAS 01739

- [1](#)B. CARACAS 01426
- [1](#)C. CARACAS 00512
- [1](#)D. CARACAS 02067

[1](#)1. (U) On July 18, 2006, in an effort to mitigate inflationary pressures, the Central Bank (BCV) raised the reserve requirement on deposits and money market funds for financial institutions from 15 to 30 percent for all funds accumulated beginning July 14, 2006 (BCV Resolution 06-07-01). The BCV allowed financial institutions to hold 15 percent reserve on funds received prior to July 14, 2006. In its July 28th newsletter, local brokerage house BBO reported that the Finance Ministry and the Superintendent of Banks (SUDEBAN) did not respond to the Banking Association's request that the measure be implemented gradually. Highlighting existing BRV requirements directing 31.5 percent of bank lending, BBO noted that this new requirement constrains banks' ability to extend credit further. Since banks do not receive interest payments on amounts held in reserve at the BCV, bank profitability is expected to decrease. Bank profits (return on equity) from June 2005 to June 2006 has already decreased from 32.7 to 29.5 percent (roughly 16 percent real profit adjusted for inflation). As of June 2006, financial institutions hold USD 285 million above their reserve requirement of USD 6.5 billion (or 16 percent of money supply) at the BCV.

[1](#)2. (U) Money supply (M2), which equals currency, checking accounts, savings deposits, and CDs, grew 61.4 percent since July 2005, reaching USD 40.2 billion in July 2006. By the end of May 2006, the increasing costs of issuing certificates of deposits (CDs) to fight increasing liquidity had resulted in BCV operational losses totaling USD 73 million (reftels A-C). As of May 31, 2006, the outstanding balance of BCV certificates of deposits (CDs) in circulation was USD 15.7 billion. (Note: The BCV has not published June 2006 financial results. End Note.) To help constrain the growing money supply and to alleviate some financial pressure on the BCV, the Finance Ministry has worked with the Central Bank over the past year to undertake several measures including selling BRV and Argentine dollar-denominated bonds.

[1](#)3. (U) Comment: The BCV continues to struggle to reconcile

an increasing money supply with a BRV-imposed constraint to maintain the current exchange rate throughout this election year. However, this new bank reserve requirement, as much as it promises some relief to the increasing liquidity problem, squeezes an already tightly regulated banking industry. End Comment.

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